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DEPARTMENT FOR H/CTO, WHA/BSC, S/CT, WHA/EPSC, WHA/PPC

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PREL, BR

SUBJECT: BRAZIL SCENESETTER: CODEL THOMPSON MAY 27-28

11. This message is sensitive but unclassified, please treat accordingly.

12. (U) SUMMARY AND COMMENT: Your visit comes at a time when the relationship between the United States and Brazil is accelerating and being given added weight with the rapid growth of Brazil's regional and global economic and political clout. Brazil has assumed a larger role in promoting regional stability by leading the UN peacekeeping contingent in Haiti and views itself as a potential member of an expanded UN Security Council. Through the financial crisis, Brazil has played a leading role globally in the G20 and also led efforts to conclude the Doha round of World Trade Organization (WTO) negotiations. Further, the country has the potential to play a major role in promoting global energy security. The Brazilian government seeks to develop a global market for biofuels and also to bring into production its vast, new off-shore oil and gas discoveries. In spite of its relatively clean energy matrix, Brazil is a major carbon dioxide emitter, largely as a result of deforestation, which makes it a critical player in the discussion on climate change. Your visit presents an opportunity to underline our strong interest in continuing to expand our cooperation, including in areas such as counterterrorism and combating transnational crime. END SUMMARY AND COMMENT.

Political Overview

13. (U) With democracy re-established in 1988 after a period of military dictatorship, Brazil's democratic institutions are generally strong and stable. President Lula remains a popular president - one of the most popular in Brazil's history and indeed in the world today, with recent approval ratings as high as 78% - as a result of his orthodox economic policies and expanded social programs. In the Congress, ongoing public scandals involving the leadership of the Senate and various members of congress have led to low ratings for the institution among the Brazilian public. Increasingly, the court system has taken steps to curb impunity among public officials. These steps have been well received by a public accustomed to abuses by authorities.

14. (U) The United States and Brazil share the basic goals of fostering hemispheric stability and preventing terrorist and drug transit activity. The attainment of a permanent seat on the United Nations Security Council has been a central goal of Brazil's foreign policy under President Lula's government. Regionally, Lula has maintained Brazil's historic focus on stability, seeing dialogue and good relations with all parties as the best way to achieve this goal. As a result, Brazil maintains an active dialogue with Venezuela and Cuba, has worked to foster good relations with

Bolivia, has given its assistance in resolving the FARC hostage crisis in Colombia, and has stood firmly on the principle of respect for sovereignty in the region.

Counterterrorism Overview

¶5. (SBU) The Brazilian government continues to be a cooperative partner in countering terrorism and related activities that could contribute to the facilitation of attacks in the region or elsewhere--to include investigating potential terrorism financing, document forgery networks, and other illicit activity. Operationally, elements of the Brazilian Government responsible for combating terrorism, such as the Federal Police, Customs, and the Brazilian Intelligence Agency, effectively work with their U.S. counterparts and diligently pursue investigative leads provided by U.S. intelligence, law enforcement and financial agencies regarding terrorist suspects. The senior levels of the Brazilian government, however, publicly deny the possibility that terrorist groups or individuals connected to such groups operate or transit through Brazilian soil and vigorously protests any claims made by U.S. authorities to the contrary.

AREAS OF CONCERN: SAO PAULO, TRIBORDER AREA

¶6. (SBU) Brazil's intelligence and law enforcement services are concerned that terrorists could exploit Brazilian territory to support and facilitate terrorist attacks, whether domestically or abroad, and have focused their efforts in the areas of Sao Paulo (where the vast majority of Brazil's estimated 1.2-1.5 million

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Muslims live), the triborder areas of Brazil, Argentina, and Paraguay; Brazil, Peru and Colombia; and the Colombian and Venezuelan borders. Brazil's recognition of the potential threat from terrorism prompted a reform of the Brazilian Intelligence Agency (ABIN) that raised the profile of the issue by upgrading the counterterrorism division to the department level and establishing the Brazilian Intelligence System (SISBIN) -- an NCTC-like entity within ABIN to coordinate intelligence gathering and sharing across the GOB.

¶7. (SBU) As Brazil has focused resources on monitoring and suppressing illegal activity in the Triborder Area (TBA) of Brazil, Argentina and Paraguay, during the past decade, the government has achieved visible results from its investments in border and law enforcement infrastructure that were executed with a view to gradually control the flow of goods--legal and illegal--through the TBA, the proceeds of which could be diverted to support terror groups. The inspection station at the Friendship Bridge in the TBA that was completed by Brazilian Customs (Receita Federal) in 2007 has continued to take effective action to suppress the smuggling of drugs, weapons, and contraband goods along the border with Paraguay. According to Brazilian Customs (Receita Federal) in 2008 the agency interdicted more than \$76 million in smuggled goods, including drugs, weapons, and munitions, an increase of eight percent from ¶2007. As a result of the effective crackdown on the Friendship Bridge, most smuggling operations now take place through the Parana River and Lago Itaipu and some have migrated to other sections of the border such as the towns of Guaira and Ponta Pora. The Federal Police has Special Maritime Police Units in both Foz de Iguacu and Guaira that aggressively patrol the maritime border areas but because of the scale and complexity of the endeavor to curtail smuggling and trafficking activities through the waterways, Brazil is currently considering using an Unmanned Aerial Vehicle to assist law enforcement in monitoring the border, a development that could further improve border security.

INTERNATIONAL AND BILATERAL COOPERATION

¶8. (SBU) Brazil's intelligence and law enforcement forces work closely with regional and international partners. In 2008, ABIN hosted a multilateral conference on counterterrorism involving the security services of several South American countries. Also in 2008, the Federal Police and ABIN, together with the United Nations

Organization for Crime and Drugs, co-hosted an international conference on terrorism finance. In addition, Brazil actively participates in international counterterrorism fora such as the 3+1 Mechanism on Security in the Triborder Area, Mercosul's Working Group on Terrorism and the Subworking Group on Financial Issues, the latter of which discusses terrorism financing and money laundering among the Mercosul countries.

¶9. (U) Bilaterally, the USG provided a variety of training courses throughout Brazil in counterterrorism, combating money laundering, detection of travel document fraud, container security, and international organized crime. In 2008, Brazil and the United States began exchanging information on critical infrastructure protection issues.

¶10. (U) In 2008, the GOB and the USG continued to work together through the Container Security Initiative in Santos, Brazil to promote secure containerized cargo to the United States and through the establishment of a Trade Transparency Unit to detect money laundering through trade transactions.

TERRORISM FINANCING, MONEY LAUNDERING

¶11. (SBU) Brazil is capable of monitoring domestic financial operations and effectively utilizes its financial intelligence unit, the Financial Activities Oversight Council (COAF) to identify possible funding sources for terrorist groups. Through the COAF, Brazil has carried out name checks for persons and entities on the UNSCR 1267 and 1373 terror finance lists, but has so far not found any assets, accounts or property in the names of persons or entities on the UN terror-finance lists.

¶12. (U) Brazil also continues to undertake steps to enhance its capabilities to combat money laundering. Since 2003, fifteen specialized money laundering courts have been established, including two in Sao Paulo, with each court headed by a judge who receives specialized training in national money laundering legislation. In addition, in 2008, the United States and Brazil established a

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working group with money laundering judges to share best practices and training needs.

¶13. (U) A 2006 national anti-money laundering strategy goal was formed aimed to build on the success of the specialized courts by creating complementary specialized federal police financial crimes units in the same jurisdictions. In 2008, the Federal Police established such units in the Federal District (Brasilia), and the states of Rio de Janeiro and Sao Paulo. In addition, the Ministry of Justice funded the creation of technology centers to combat money laundering in the Federal District and Rio de Janeiro, the latter of which received two such centers, one embedded with the Public Ministry and one with the state Civil Police. In 2008, the Ministry signed accords to establish additional centers in Bahia, Goias, and Rio Grande do Sul.

AREAS FOR IMPROVEMENT

¶14. (SBU) Brazil's overall commitment to combating terrorism and the illicit activities that could be exploited to facilitate terrorism is undermined by the GOB's failure to significantly strengthen its legal counterterrorism framework. Two key CT-related legislative initiatives continued to languish in 2008. An anti-terrorism bill that would have established the crime of terrorism and other associated crimes was drafted but shelved before its introduction in Congress and a long-delayed anti-money laundering bill has not been approved by Congress. If passed, the latter bill would facilitate greater law enforcement access to financial and banking records during investigations, criminalize illicit enrichment, allow administrative freezing of assets, and facilitate prosecutions of money laundering cases by amending the legal definition of money laundering and making it an autonomous offense.

¶15. (SBU) The Brazilian government has also been willing to accept the political cost of taking positions that undermine its commitment

to combating terrorism. Brazil has angered Israel over its refusal to condemn the actions of HAMAS and Hezbollah or to consider them terrorist groups, while at the same time senior government officials have called Israel's action's "State terrorism". In 2006 Brazil upset Colombia by granting refugee status to the FARC's international representative in Brazil, whose extradition for murder was sought by the Colombian government. In 2007, the suggestion that planning for the 1994 bombing of AMIA, an Argentine Jewish center, might have taken place in Brazil caused the GoB to abstain in an international vote over whether to issue Interpol warrants for Iranian officials accused in the case, an action that disappointed and irritated Argentina. And in a case that is currently pending before the Brazilian Supreme Court, in 2008 the GOB granted refugee status to an Italian leftist terrorist wanted in connection for four murders, creating a row between the two countries.

Law Enforcement Issues

CYBERCRIME

¶16. (SBU) Brazil is an OAS leader in addressing cybercrime and has worked with other South American states to push forward Cyber threat issues in cooperation with DOJ's Criminal Division's Computer Crime and Intellectual Property Section. Additionally, Brazil is a member of the G-8's 24/7 High Tech Crime Network. The 24/7 Network enables member states to assist each other to quickly identify and preserve electronic evidence located in another state.

¶17. (SBU) The DPF is moving towards an intelligence-driven, proactive investigative force with initiatives to combat Cyber Intrusion crimes particularly committed against the financial sector; crimes in the proliferation of child pornography/child sexual exploitation facilitated by online computer users; and in general crimes via the internet.

Defense Cooperation

¶18. (SBU) The first potential watershed in achieving a more robust defense relationship with Brazil will be the decision on a next generation fighter aircraft. Boeing's F-18 Super Hornet is a finalist along with the French Rafale and Swedish Gripen. A

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decision will be made in June 2009, with a final contract award in October. It would be difficult to overstate the significance of Brazil's Air Force committing to a U.S. aircraft as its primary fighter for the next generation. Boeing's proposal combines cutting-edge technology with a strong package of industrial cooperation. To be successful, Boeing will have to make a strong case that its offset package offers economic benefits to Brazil far greater than its competitors.

Expanding Economic Ties

¶19. (U) Brazil is the tenth largest economy in the world and received investment grade from Standard and Poor's and Fitch in ¶2008. Annual Gross Domestic Product (GDP) grew 5.1 percent in 2008, and inflation was 5.8%. Prospects for 2009 have been dimmed by the global economic crisis, taking previous predictions for annual GDP growth from 4 per cent to .01 percent with some analysts predicting a recession. Despite this decline in immediate prospects, Brazil has thus far weathered the crisis better than most major economies, due in large part to its conservative macroeconomic policies.

¶20. (U) Despite progress in recent years, income distribution in Brazil remains grossly unequal, with 10 percent of the population holding over 50 percent of the nation's wealth. Brazil is home to 50 percent of the people who live in extreme poverty in Latin America. President Lula's social programs, combined with formal sector job growth and real increases in the minimum wage, have

reduced income inequalities each year since 2004.

¶21. (U) Major structural challenges to long-term growth include a complicated and onerous tax structure, high interest rates, and cumbersome labor and business regulations. As a result of its regulatory structure, Brazil ranks 125th in the World Bank Group's Doing Business assessment of regulatory climate in 181 countries. The informal sector (one of the largest among large developing economies) constitutes an estimated 40 percent of Brazil's economy, in large part in response to the onerous tax and regulatory requirements to participate in the formal economy.

¶22. (U) Brazil is a major producer and exporter. Agriculture makes up 36 percent of exports, and the agribusiness sector accounts for 25 percent of Brazil's GDP. Brazil is a leading exporter of soybeans, beef, sugar, coffee, and orange juice. Brazil also distinguishes itself as a major exporter of civilian aircraft, steel, and petrochemicals. The United States is Brazil's top trading partner, and China has moved into position as number two. Brazil was a significant leader in the World Trade Organization's Doha Round negotiations and was active in trying to broker a deal between the United States and India.

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¶24. (U) In recognition of Brazil's growing importance as a world economy, the U.S. government seeks opportunities for positive bilateral cooperation on economic issues. Brazil and the United States are in discussions over a possible Bilateral Tax Treaty. After both countries agreed in June 2008 to significantly expand civil aviation opportunities, two U.S. airlines were granted approval for 21 new frequencies. Further frequency allocations for 2009 under the agreement have been tentatively allocated.

Global Financial Crisis

¶25. (U) The global financial crisis has affected Brazilian companies' exports and access to credit. Brazil's Finance Minister continues to assert that Brazil is well-positioned to weather the crisis while he and Central Bank contacts confirm moves to try to mitigate the effects of the crisis. President Lula, taking a leading role in the debt over how to handle the economic crisis

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including through the G20 process, has criticized actors in developed countries for sparking a crisis that affects developing countries. He has called for increased regulation of the global financial system, increased global access to trade finance, and an expanded role for large emerging countries like Brazil in international financial institutions such as the International Monetary Fund (IMF). Presidents Lula and Obama agreed to work together to advance our common interests through the G20 process and have established working groups to that end.

¶26. (U) Over the past quarter Brazil has posted a series of poor economic results that confirm the country will not escape the current global financial crisis unscathed. A February 3 report detailing a 14.5 percent drop in industrial output in December 2008 versus December 2007 (the biggest drop in 17 years), finally prompted President Lula to admit that his country's economy may be contracting. The government has reacted to the economic downturn thus far with a series of piecemeal announcements and actions aimed at increasing liquidity in the banking system, stimulating growth through a series of targeted tax cuts, and seeking to shore up exports. President Lula has announced his intention to develop a

comprehensive response plan for release in the coming weeks. However, details still remain under interagency discussion.

Energy

AREA FOR COOPERATION: BIOFUELS

¶27. (U) For Brazil, turning ethanol into a world commodity is a key aspect of increasing energy security. Though Brazilian ethanol is produced from sugar cane, Brazil sees expansion of the global ethanol market, regardless of feed stock, as a key interest. In March 2007, the United States and Brazil signed a Memorandum of Understanding (MOU) on biofuels cooperation. As a result, scientists and laboratories from the two countries are collaboratively researching next generation biofuels technologies. We are also working together in various multilateral fora to develop international biofuels standards and sustainability criteria. By making it easier to treat biofuels as a tradable commodity, these standards should foster the emergence of a vibrant global biofuels market.

¶28. (U) The United States and Brazil are jointly assisting a group of developing countries in creating their own biofuel markets, with the goal of reducing their dependence on imported oil. The joint cooperative effort initially targeted four countries: Haiti, St. Kitts, El Salvador, and the Dominican Republic. In November 2008, five new countries joined the group: Guatemala, Guinea-Bissau, Honduras, Jamaica, and Senegal. Brazil would like to see the United States aggressively expand these cooperation efforts to include developing countries in Africa and Southeast Asia, both as a development tool and as a way to increase the commodity market for ethanol.

¶29. (U) Modest tax breaks have stimulated the Brazilian domestic ethanol market and have led new car purchasers to opt overwhelmingly for "flex-fuel" cars that can run on gasoline, ethanol, or any combination of the two. In 2008, ethanol surpassed gasoline as the dominant automotive fuel. Domestic demand consumes 85 percent of all production. The other 15 percent is exported, primarily to the United States, making our ethanol import surcharge a continuing irritant in bilateral relations. The GOB also uses mandates to promote greater use of biodiesel.

VAST OIL AND GAS DISCOVERIES

¶30. (U) The discovery in 2007 of potentially massive offshore ("pre-salt") reserves of oil and gas estimated to contain between 30-80 billion barrels of oil equivalent could put Brazil within the top ten oil countries by reserves. Though the discoveries have generated a great deal of excitement, industry observers caution that developments will probably be slow in coming due to the expensive technological challenges involved with ultra-deepwater drilling, including a worldwide shortage of equipment such as drilling rigs.

¶31. (U) Petrobras is hamstrung by limited equipment resources. However, it has launched a multi-billion dollar procurement

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initiative and is reexamining its international priorities so that it can focus on domestic opportunities, though it remains to be seen how the global financial crisis will may affect those plans. U.S. oil companies are poised and ready, in many cases, to take on more exploration opportunities. Brazil is currently reexamining its oil sector structure to make the most use of these finds. Interim reports suggest that the GOB may be leaning towards developing a state-owned company to manage the rights to the oil fields as they contract out the exploration. Brazil has expressed interest in having U.S. companies involved in the exploitation of Brazil's oil reserves.

FURTHER ENHANCING ENERGY COOPERATION

¶32. (U) Brazil and the United States have many other common areas

of interest in the energy sector. The convergence of our interests offers opportunities to enhance both countries' national energy security. Building on the success of the biofuels relationship, Brazil and the United States have identified three new areas of possible collaboration under a preexisting Memorandum of Understanding between the U.S. Department of Energy and Brazil's Ministry of Mines and Energy and established new working groups in the areas of energy efficiency, clean coal, and nuclear energy. The United States also has commercial interests, particularly in nuclear energy, as Brazil looks to expand its civilian nuclear energy program. For example, Westinghouse is in the running to build four to eight new nuclear reactors in Brazil over the next ten years.

¶33. (U) The United States would like to parlay these and other shared interests into support for a hemispheric energy partnership. There are many opportunities for joint cooperation including research and development, energy efficiency, and green technologies. It is important that prominent Brazilian policymakers perceive the level of importance the USG accords to this efforts. Any appropriate opportunities for the delegation to reinforce this message would be invaluable as we pursue this major policy initiative.

The Environment and Climate Change

¶34. (U) Brazil pursues two sometimes-conflicting goals with regard to the Amazon region. On the one hand, it seeks to preserve the natural resources and biodiversity found there. To that end, the government requires landowners to preserve eighty percent of forest on their lands and has placed large amounts of the forest into protected areas, such as national parks and indigenous reserves. At the same time, the Brazilian government seeks economic growth and redistribution of land. Thus, since the 1970s it has built a network of roads through the Amazon, which has opened the region to timber and agriculture (mainly cattle and soybean) interests.

¶35. (U) Massive and ongoing clearing of the Amazon Forest releases large quantities of carbon dioxide into the atmosphere. The GOB estimates that about 75 percent of the country's green house gas emissions come from changes in land use and deforestation. The GOB has stepped up enforcement efforts to stop illegal clearing and has displayed great interest in the use of programs which pay people to avoid deforestation. These efforts, combined with a drop in agriculture commodity prices, are expected to result in a significant decrease in the deforestation rate this year. In December 2008, the GOB announced a domestic goal of reducing the deforestation rate by about half by 2017. In international climate change negotiations, Brazil has been far less bold and innovative, contending that only developed countries should be required to assume emission reduction targets.

Goldman Abduction Case

¶36. (U) American David Goldman is currently pursuing a Hague Abduction Case, involving his son Sean who was brought to Brazil by his mother and wrongfully retained here over 4 years ago. The case has been remanded to the 16th Federal Court in Rio de Janeiro. The Court has two cases before it: the return motion from Mr. Goldman under the Hague Convention on International Child Abduction, and the custody motion by Sean's Brazilian stepfather which was originally filed in a Rio state court. The Ambassador and numerous elements within the Mission have been working firmly but quietly behind the

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scenes to remind the GOB of its obligations under the Hague Convention. We are cautiously optimistic that the move to the Federal Court will result in a more just decision on the Hague case. We remain in constant touch with David Goldman and his Brazilian attorney to ensure that their interests are represented effectively in Brasilia. A decision may be announced soon.